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DATE: April 26, 1995

FROM: Denise Cohen

SUBJECT: Marlboro Non-Workload Programs

Background

The March Non-Workload program was the first Non-Workload program to go through distributors as an SBO. It was designed to support MCS in Non-Workload accounts by providing MCS POS, mini-catalogs, and displays for non-promotional product. Regional allocations were based on the number of Non-Workload retailers in STARS. SAMs were to sell the program into wholesalers who would then put 5 cartons of product into each POS carrier case and sell the final kit to Non-Workload retailers. To audit this promotion, a Mystery Shopper program was put in place, and 2,000 Marlboro Red Packs were reserved to reward participating retailers and their associated wholesalers.

When this program is compared to the November Non-Workload POS drive, it falls very short of expectations. The November drive included POS-only kits which were shipped directly to Non-Workload retailers from STARS. Of these stores, 57% had placed at least one piece of POS. Only 14% of the audited March stores had placed any POS.

Following is an explanation of the problems we encountered in March, as well as resolutions and recommendations for future Non-Workload programs.

March Results

Utilization: Kits shipped from PM express to Wholesalers
Total utilization for this program was 92%, which is very high for an SBO. 87% of the total was shipped to wholesalers which translates to 80% of all kits produced. The balance was either un-ordered or shipped directly to workload accounts by TSMs who wanted more MCS POS.

Placement: Kits sold by Wholesalers to Retailers
This placement is based on the Mystery Shopper preliminary audit results from 66 cities across the US. Auditors were given a list of STARS Non-Workload retailers throughout the country and performed spot-checks in these accounts to look for new POS. We did not get a list of kit placement from each wholesaler because we did not want to alert them to the audit - we wanted the process to flow as naturally as possible. Unfortunately, the audit demonstrated that only 14% of stores visited had placed POS. At this point, I do not know where the balance of kits was sold, but I think many of them were placed in workload accounts by distributors who preferred to deal with their better customers.

Preliminary Audit Results
Final results from the March audit show that only 14% of the open stores visited had placed any Marlboro Gear POS. 10% of the stores on the STARS list could not be found, were no longer in business, or did not sell cigarettes.

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The most popular POS item tracked was the Take-One Box which was found in 8.8% of the existing stores visited. Following are percentages for placement of the tracked POS items:

Display	17%
Poster	36%
Change Mat	33%
Small Banner	32%
Take-One Box	61%

A lack of awareness of the program was the principle reason for non-participation - 71% of non-participating retailers had not heard about the program. 54% of the non-participating retailers claim they will participate if they know about future promotions.

Based on the remaining inventory of the Mystery Shopper reward - the Marlboro Red Pack - it is safe to conclude that very few kits were placed in the accounts we had selected. Of the 1,000 Red Packs reserved for retailers, we have 700 left over.

What Went Wrong?

Utilization

Our current system only allows us to track shipments to the wholesaler. Additionally, the SAMs who sell this program into distributors are only accountable for this first leg of the promotion. Wholesalers are rewarded for kit placement regardless of where they sell the kits. We have not succeeded in incenting wholesalers to place these kits into specific retail accounts. Instead, kits seem to be placed in the most convenient stores, and the majority of those are workload accounts. Essentially, no one is responsible for ensuring that the kits are actually delivered as intended.

On my market check in New York, only one retailer had received the kit from her distributor, and she had only received it because she was so persistent in requesting promotions and POS to compete with her workload neighbor. When I looked at the kit, no cigarettes had been placed inside, and only one piece of POS - the catalogs - had been used.

STARS List

Even if the SBO were executed as intended, many of the "Non-Workload" stores could actually be workload accounts. This is due inherent errors in the selection process - Retail addresses in STARS are matched against those in SPACE, and those that don't match are considered Non-Workload. However, TSMs and the wholesalers providing information sometimes use different addresses, resulting in the misnomer of "Non-Workload" for those unmatched workload accounts.

Another selection criteria which is also imperfect is CPW. We have only looked at accounts that don't match SPACE *and* sell less than 50 cartons per week. We assumed that this limitation would minimize the error resulting from unmatched addresses. However, STARS only takes information from one wholesaler for each retailer. Consequently, a retailer who is supplied by several wholesalers would appear to be a much smaller account in STARS.

These issues explain why many of the stores that I audited in New York were actually workload accounts. It was clear that a TSM had been in some of these accounts by the

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presence of permanent POS and decals. Many of the retailers in these stores also mentioned that a TSM was in there about once a month and tracked them in SFA.

POS and Promotions
Finally, many of the actual Non-Workload accounts in STARS simply don't take POS or promotions. In New York, these were often small newsstands in Corporate of Federal buildings. Some accounts just wouldn't take tobacco POS.

How Can We Fix This?

June Non-Workload POS Drive
In March, 12% of all kits shipped were ordered by TSMs for specific workload retailers. In June, we will ensure that POS kits are delivered only to distributors by blocking any single kit orders by TSMs.

While we cannot dictate and enforce wholesaler placement of the POS kits, we can encourage correct placement at the time of SAM sell-in. We can send out a sales communication to those involved in this program to reinforce the objectives and report how the March program fell short of expectations. The objective of this communication is increase SAMs accountability by explaining that the success of this program is not based on shipments to wholesalers but on final retail placement.

Finally, I recommend that we send a simple direct mail piece to the Non-Workload retailers on our STARS list to inform them of this upcoming POS drive. The objective of this mailing would be to drive selected retailers to their wholesalers to request this program. If effective, this should minimize the problem we had in March with random kit placements.

STARS List
The STARS list is continuously being refreshed by MSA, with new information being processed daily rather than weekly. The most significant change will begin in May when store-matching screens will be added to SFA. Any STARS account that does not match SPACE will appear in TSMs computers, by territory, for classification. This should reduce the amount of overlap among workload stores and those accounts that STARS currently lists as Non-Workload.

Future Non-Workload Programs - POS and promotions
It seems clear that the biggest problem with using distributors for these programs is that we are unable to ensure that kits are placed with the retailers we select. We need to develop a system by which we can link distributor payments to accurate placement of kits, or completely bypass the distributor when possible. Options for this include direct marketing and telemarketing to the Non-Workload retailers that meet our criteria.

I am currently working with Bain on the telemarketing option and hope to test some programs this summer in Atlanta. I will forward some recommendations for Non-Workload program changes later this week.

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